



THE CITY OF SAN DIEGO

Redevelopment Agency's Report

DATE ISSUED: February 1, 2006

REPORT NO.: RA-06-06
RTC-06-007

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Council President and City Council
Docket of February 7, 2006

SUBJECT: City Heights Square Senior Housing Project, First Implementation
Agreement

REFERENCE: Executive Director Report No. RA-05-11 and CMR-05-095

REQUESTED ACTION:

- 1) Should the Redevelopment Agency authorize the Executive Director or designee, to execute the First Implementation Agreement to the Disposition and Development Agreement ("DDA") between the Redevelopment Agency of the City of San Diego (the "Agency") and City Heights Square, L.P. and Senior Housing Corporation (SHC) (the "Developer")?
- 2) Should the Redevelopment Agency authorize the additional expenditure of funds for the City Heights Square Senior Housing Project in the amount not to exceed \$2,000,000 as an Agency operating agreement (\$1,700,000 from the Centre City Redevelopment Project and \$300,000 from the City Heights Redevelopment Project Area)?
- 3) Should the City Council approve the Findings of Benefit (Attachment 5) to use Centre City Redevelopment Project Low and Moderate Income Housing funds outside of the Project Area for the additional amount?

STAFF RECOMMENDATION TO THE REDEVELOPMENT AGENCY:

- 1) Authorize the Executive Director or designee, to execute the First Implementation Agreement to the Disposition and Development Agreement ("DDA") between the Redevelopment Agency of the City of San Diego (the "Agency") and City Heights Square, L.P. and Senior Housing Corporation (SHC) (the "Developer").
- 2) Authorize the additional expenditure of funds for the City Heights Square Senior Housing Project in the amount not to exceed \$2,000,000 as an Agency operating agreement (\$1,700,000 from the Centre City Redevelopment Project and \$300,000 from the City Heights Redevelopment Project Area).
- 3) Approve the Findings of Benefit to use Centre City Redevelopment Project Low and Moderate Income Housing funds outside of the Project Area for the additional amount.

STAFF RECOMMENDATION TO THE CITY COUNCIL:

- 1) Approve the Findings of Benefit to use Centre City Redevelopment Project Low and Moderate Income Housing funds outside of the Project Area for the additional amount.

SUMMARY:

BACKGROUND-

The provision of high quality affordable housing, including senior housing, is a primary goal of the City Heights Redevelopment Plan and the City Heights Redevelopment Five Year Implementation Plan. This project is being undertaken in conjunction with two other commercial/office developments as part of a master plan. The majority of the proposed project site is the former location of an Albertson's grocery store. When the City Heights Urban Village Retail Center was completed in 2001, a new expanded Albertson's grocery store opened and the old store was closed on the current project site. San Diego Revitalization Corporation acquired the property, cleared the site and began master planning the grocery property as well as the majority of the remainder of the block bounded by University Avenue, Fairmount Avenue, Polk Avenue and 43rd Street. SDRC established a working partnership with Chelsea Investment Corporation and Senior Community Centers for the planning and development of a senior housing project. In addition, they also established a working partnership with La Maestra Family Clinic for the planning and development of a new community clinic/office/retail building. Together the four organizations have collaborated to develop a master plan for most of the block, which is shown in the site plan and concept drawings (Attachment 2). On June 28, 2005 the City Council approved the entire master plan area entitlements as a single Planned Development Permit.

The Agency assisted the master planning effort and is currently proposing the approval of the First Implementation Agreement (Attachment 3) to the DDA for the City Heights Square Senior Affordable Housing project.

Chelsea Investment Corporation and Senior Community Centers have successfully developed numerous similar projects, including the Poticker Senior Housing Project.

DISCUSSION-

The City Heights Square redevelopment project master plan area totals 2.7 acres. City Heights Square Senior Housing project totals approximately .75 acre and would include 151 living units, with 150 apartments restricted to very low and extremely low income senior (62 years and older) tenants. The senior project site is proposed as a five-story, Type 1 constructed building over one level of below-grade parking at the southeast corner of Polk Avenue and 43rd Street. All project tenants will have access to on-site support services, provided by Senior Community Centers (SCC). The developer intends to finance the project through a combination of conventional debt, the 9% Low Income Housing Tax Credits (LIHTC), an award from the Federal Home Loan Bank Affordable Housing Program (AHP), Redevelopment Agency gap funding and deferral of a portion of the developer fee.

Rents will average \$475 per month, with the average household income served at 42% of Area Median Income (AMI). The Project would provide support services by SCC, including a Service

Coordinator, a Mental Health worker and a Registered Nurse. Specific services offered will include on-site clinical services, physical and mental health education and counseling, health monitoring, referrals to physicians, mental illness and substance abuse intervention, entitlement and legal counseling and a congregate meal program. Universal Design features are part of the current design and have been incorporated into the overall plans for the site.

This project, along with its accompanying developments in the master planned block, are considered a complementary phase of the City Heights Urban Village. The significant scale and active mixed uses of the new development would further solidify the Urban Village area as the commercial and civic center of the City Heights community.

On May 3, 2005, the Redevelopment Agency authorized the Executive Director to execute the Disposition and Development Agreement (Attachment 4) with City Heights Square, L.P. and approved \$7,105,000 of low and moderate income housing set-aside funds for gap financing of the City Heights Square Senior Housing Project, contingent on the developer applying for State AHP and 9% tax credits.

On September 28, 2005, the City Heights Square Senior Housing Project successfully secured the highly competitive 9% Affordable Housing Tax Credits.

Subsequent to the September 28, 2005 award of tax credits the project has one hundred-fifty (150) days (February 24, 2006) to close all financing and meet the readiness to proceed requirements. Upon notification of award of tax credits, the developer has been preparing working construction drawings, and completing final negotiations with its financial partners, general contractor and subcontractors. As a result, they discovered material and labor costs have steadily increased at a much higher than anticipated rate. More recently, the construction material market has been significantly impacted due to Hurricane Katrina. The developer's total development costs have increased by \$7,493,000 from \$22,439,000 to \$29,932,000. The developer has also identified additional design, administration and operating costs. The developer proposes to significantly increase its tax credit equity funding by \$4,968,000 from \$15,882,000 to \$20,790,000. However, this increase is not enough to make up the total cost increase.

The negotiation process identified the need for an additional commitment of \$2,000,000 NOFA funds and 100% of any AHP grant funds they may receive for this project. The current DDA does not include AHP in the project budget, but requires the developer to apply for the funds and transfer them to the Agency to offset its contribution. It is now proposed that 100% of the AHP funds be retained by the project. The developer intends to apply for \$1 million of AHP in April, 2006.

Keyser Marston Associates, Inc. (KMA) has prepared a summary (Attachment 1) for the City Heights Square Senior Housing Project, to evaluate the requested project budget increase. Due to the substantial increase in construction costs, the Agency and KMA contracted with Hunter Pacific Group to review the construction drawings and complete a peer review of the developer's costs. The Hunter Pacific Group's peer review analysis estimates the construction costs for this project are 3% higher than the developer's construction cost estimates and that the gap funding request is approximately \$800,000 lower than needed for the project's total construction cost.

In spite of the proposed \$2,000,000 increase in Agency funding and \$1,000,000 in increased AHP funding there still remains a gap of approximately \$700,000. It is proposed that this gap be made up with adjustments to the developer's budget assumptions in both construction (i.e. contingency and deferred developer fee) and operating costs, to allow for a higher private equity loan. The Developer shall be responsible for providing all funds which may be needed to pay for cost overruns and contingencies not otherwise funded by construction financing

A further analysis of the project financing and a justification of the Agency's additional contribution to the project are provided in the Re-Use Appraisal and 33433 Report (Attachments 6 & 7) prepared by Keyser Marston Associates, Inc.

The increased NOFA funding would raise the per unit Agency subsidy from \$47,053 to \$60,290. With the exception of the change in total budget, the Agency additional funding amounts as outlined in the Method of Financing, Project Budget, Operating Fund Agreement and Disbursement Fund Agreement exhibits attached to the First Implementation Agreement to the DDA for City Heights Square Senior Housing Project (Attachment 3), the overall structure of the project financing and obligations between the Agency and Developer remain unchanged. These terms are defined in the original DDA, provided as Attachment 4.

ALTERNATIVE-

Do not approve the First Implementation Agreement and related actions. This alternative would not allow the project to proceed and would prevent an opportunity to provide a significant affordable housing resource and a potential catalyst project for the revitalization of the surrounding community.

FISCAL CONSIDERATIONS:

The approved DDA specifies the allocation of \$7,105,100 in Agency funds be contingent upon receipt of tax credit financing. The Project has been successful in receiving an allocation of approximately \$20,790,000 from the highly competitive Federal Affordable Housing Tax Credit program. If project costs had remained stable the project would be ready to proceed with construction within forty-five (45) days. However, the estimate for the total development costs for the project has increased by \$7,493,000 in the past nine months, from \$22,439,000 in April, 2006 to the current \$29,932,000. This action will increase the Agency's funding allocation by \$2,000,000 to a total amount of \$9,100,000.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

On January 12, 2006, the Affordable Housing Executive Loan Committee recommended approval of the staff recommendation for an additional allocation of \$2,000,000 of low and moderate income housing set-aside funds and 100% of any Federal Home Loan Bank's Affordable Housing Program (AHP) revenues received for the City Heights Square Senior Housing Project to ensure the project has adequate funds to meet unanticipated construction cost increases. A condition was placed on the approval to include a letter from the Committee (Attachment 8) to the Agency in order to advise that this project includes Agency approved exceptions to the general NOFA lending principles.

On January 9, 2006, the Affordable Housing Collaborative Review Team recommended the additional allocation of \$2,000,000 of low and moderate income housing set-aside funds and 100% of any Federal Home Loan Bank's Affordable Housing Program (AHP) received for the City Heights Square Senior Housing Project.

On May 3, 2005, the Redevelopment Agency authorized the Executive Director to execute the Disposition and Development Agreement with City Heights Square, L.P. and approved \$7,105,000 of low and moderate income housing set-aside funds.

COMMUNITY PARTICIPATION & PUBLIC OUTREACH EFFORTS:

On January 9, 2006, the City Heights Redevelopment Project Area Committee voted to recommend the additional allocation of \$2,000,000 of low and moderate income housing set-aside funds (\$1,700,000 of Centre City Project funds and \$300,000 of City Heights low and moderate income housing set-aside funds) and 50% of any Federal Home Loan Bank Affordable Housing Program (AHP) funds for this project. The other 50% of AHP funds would be retained by the Agency to offset the Agency funding contribution.

Respectfully submitted,

Maureen Ostrye
Deputy Executive Director/
Acting Deputy Director
Redevelopment Agency

Approved: Debra Fischle-Faulk
Assistant Executive Director
Redevelopment Agency/
Acting Community and
Economic Development Director

Approved: Jim Waring
Deputy Chief Operating Officer

FISCHLE-FAULK/RHK

- Attachments:
1. Financial Analysis Report of Project Cost Increase
 2. Site Plan and Concept Plan
 3. Proposed First Implementation Agreement
 4. Disposition and Development Agreement
 5. Findings of Benefit Summary
 6. Agency 33433 Report prepared by Keyser Marston Associates
 7. Re-Use Appraisal Report prepared by Keyser Marston Associates
 8. Affordable Housing Executive Loan Committee Letter